

BROCHURE #14—MOTOR VEHICLES

An Educational Guide to Sales Tax in the State of Idaho

This brochure is intended to help motor vehicle dealers, leasing companies and their customers understand the sales tax laws that apply to their business. It applies only to the sale or lease of motor vehicles and certain trailers. Different rules apply to all-terrain vehicles, boats, snowmobiles, recreational vehicles, and airplanes. For more information on those, see Brochure #15 — RVs, Boats & Aircraft. This information is based on the sales tax laws and rules in effect on July 1, 2004.

What is a Vehicle?

A “vehicle” is any device that can legally transport people or property on a public highway. A “vehicle” may be a bus, trailer, car, truck, pickup, motorbike, or any other device that can be operated legally on Idaho highways.

What is a Motor Vehicle?

A “motor vehicle” is a motorized device that can legally transport people or property on a public highway. “Motor vehicles” do not include vehicles without motors or off-road equipment such as snowmobiles, ATVs, boats, and airplanes.

What Should Be Taxed When I Sell a Motor Vehicle?

The sales tax is calculated on the sales price. With some exceptions, the sales price is the total amount paid for the vehicle. Any service agreed to be rendered as part of the sale must be included in the sales price. The following items are included in the taxable sales price:

- Transportation prior to the sale, including the cost of transportation to deliver the vehicle to the dealer.
- Federal excise tax imposed on the manufacturer or wholesaler before the retail sale.
- Documentation fees.
- Services rendered by the dealer as part of the agreement to sell the vehicle, such as undercoating, custom paint jobs, interior and exterior protection treatments, and repairs required by the buyer as a condition of the sale.
- Warranties and service agreements that are mandatory; that is, the buyer is required to purchase the service as part of the sales agreement.

What Items Are Not Part of the Taxable Sales Price?

Separately-listed items that are not considered part of the sales price include:

- Title transfer fees.

- Optional warranties or service agreements.
- Federal excise tax on the retail sale, such as the federal luxury tax and the federal tax on heavy tractor/trailer units.
- Finance charges, carrying charges, or interest (except certain leased vehicles).
- Trade-in allowance.
- Manufacturers' rebates which are not paid directly to the customer. (This rule applies only to motor vehicles.)

What Qualifies for a Trade-in?

Merchandise used as payment for other merchandise (often referred to as a "trade-in") reduces the amount on which sales tax is charged. To qualify as merchandise, the item traded in must be tangible personal property that will be resold by the dealer in his regular course of business. The trade-in usually is another vehicle. However, other items that meet the definition of "merchandise" also can be used (except manufactured homes). If the trade-in allowance equals or exceeds the price of the item sold, no sales tax is due.

When a leased vehicle is used as a trade-in on a new purchase or lease, the dealer cannot give an allowance for the trade-in unless the customer has paid off the lease and paid the Idaho sales tax on the buyout.

What About Manufacturers' Rebates?

If a manufacturer's rebate on a motor vehicle is used either to reduce the sales price or make a down payment, the reduction is also allowed in determining sales tax. This applies only to motor vehicles. If the customer takes the money instead of applying the rebate to the price of the motor vehicle, the rebate amount cannot be subtracted when determining the sales price.

Is the Sale of a Vehicle to a Member of an Indian Tribe Exempt?

If the vehicle is delivered on the Indian reservation and the buyer presents proof that he is an enrolled member of an Indian tribe, no tax is due. Form ST-133 must be completed to document the exemption from sales tax.

Are Sales of Vehicles to Indian Tribal Councils Taxable?

No. Sales made directly to a tribal council are exempt from sales tax. The tribe should give the seller a completed form ST-101, Sales Tax Resale or Exemption Certificate.

Can a Vehicle Qualify for the Production Exemption?

If a vehicle is required to be licensed, or the owner elects to license it for use on the highway, it does not qualify for the production exemption, regardless of how it is used. However, if the vehicle is used only off-road, and is directly and primarily used in the production process, it may qualify for the exemption. For example, a feed lot owner may buy a feed truck that will be used exclusively off-road to distribute feed to his cattle. A form ST-101, Sales Tax Resale or Exemption Certificate, must be on file with the vendor to document the exempt sale.

Are Military Personnel Exempt From Sales Tax?

No. If a military person buys a vehicle to use in Idaho, he must pay sales tax regardless of his state of residence. If he is leaving Idaho for a new duty station, he can claim the out-of-state exemption discussed next.

If I Sell a Vehicle for Use Outside Idaho, is it Subject to Idaho Sales Tax?

When a vehicle is purchased for use outside Idaho, it may qualify for an out-of-state exemption. To qualify, the buyer must be a nonresident who completes a form ST-104-MV (Sales Tax Exemption Certificate — Vehicle) stating that the vehicle:

- Will immediately be taken out of Idaho and titled and registered in another state or country; and
- Will not be required to be titled under Idaho law; and
- Will not be used in Idaho more than 60 days in any 12-month period.

A motor vehicle is considered to be stored or used here for a day when it is present in Idaho for more than 16 hours during any 24-hour period.

What is the IRP Exemption?

If you are selling a motor vehicle with a maximum gross registered weight of more than 26,000 pounds or a trailer for use in interstate commerce, a sales tax exemption known as the “IRP Exemption” is available if:

- The vehicle will be immediately registered under the International Registration Plan, or a similar pro rata plan, and
- At least 10% of your customer’s total fleet mileage is spent outside of Idaho.

Your customer must complete form ST-104-MV and acknowledge that, if his fleet mileage drops below the 10% out-of-state requirement in any subsequent year, or the vehicle is no longer registered under the IRP plan, the vehicle will be subject to use tax at that time.

Does the IRP Exemption Apply to Repair Parts or Other Items Bought by Interstate Truckers?

No. The exemption applies only to purchases of trucks, buses, and trailers, not their repair or maintenance. The sale of a “glider kit” is taxable.

Do Leased Trucks, Buses and Trailers Qualify for the IRP Exemption?

The exemption applies only if the vehicle is registered or titled in the customer’s name. A short-term lease does not qualify when the title remains in the name of the lessor.

Are Vehicles Taxable When Sold to Government Agencies?

Federal government agencies, Idaho state agencies, and Idaho political subdivisions (such as counties or cities) are exempt from paying sales tax. Exempt sales to federal agencies must be documented either by keeping a copy of the government check or purchase order, or by getting a completed form ST-101 from the agency. Exempt sales made to Idaho government entities must be documented on a form ST-101. Sales made to states other than Idaho or their political subdivisions are not exempt from sales tax.

Are Vehicles Taxable When Sold to Nonprofit Organizations?

Nonprofit organizations generally are not exempt from paying sales tax. Some organizations, such as nonprofit hospitals

and schools, are specifically exempt by Idaho law. Nonprofit organizations claiming an exemption from the tax must complete form ST-101 and give it to the vendor for his records.

Are Vehicles Taxable When Sold or Transferred Between Related Corporations?

Corporations generally are not exempt from paying sales tax on the purchase of motor vehicles. Some corporate transactions may qualify for exemption if certain requirements have been met. These requirements include proof that a general sales/use tax has been paid previously on the vehicle being sold/transferred and certain relationship qualifications exist between the seller and buyer. A form ST-133CATS explains the exemption requirements and must be completed and provided at the time the vehicle is titled.

Is Sales Tax Due When a Vehicle is Given as a Gift?

If the vehicle is a true gift — that is, there is no exchange of money, services, property, or indebtedness — then there is no sales tax due. The dealer, however, owes use tax to the state of Idaho. This tax is based on the dealer's cost of the vehicle. If the dealer's cost cannot be established, the wholesale book value is used. The dealer should either give the recipient of the gift a form ST-133, or write his sales tax permit number on the title transfer.

Must a Dealer Pay Tax if He Loans a Vehicle to a Nonprofit Organization Like a Church or School?

Yes. The dealer must pay use tax except when he loans a vehicle to a driver education program sponsored by a nonprofit school. He may choose to pay tax either on the full purchase price of the vehicle, or on the fair market rental value for the time it is loaned.

Can a Dealer Be Exempt From Paying Sales Tax on a Service or Work Vehicle?

If the vehicle is not available for sale or rental, the dealer must pay tax at the time of purchase. If a vehicle is part of the dealer's inventory and is put to a use for which a dealer's plate is not authorized, use tax is due. The dealer may choose either to pay tax on the full purchase price of the vehicle, or on the fair market rental value for the time it is used.

What About Demonstrators or Other Dealer-Plated Vehicles Used by Employees?

If federal income tax rules require the dealer to give the vehicle user a compensation form (form 1099), the dealer must pay use tax on the amount shown on the form. The use tax is paid on the return for the month following the issuance of the form to the employee or owner.

When a Dealer Sells a Vehicle, Then Later Agrees to Take It Back, Can He Claim a Refund or Credit?

If the dealer refunds all of the customer's money, he must also refund the sales tax. This is called a "rescinded sale." The dealer can claim a credit or refund for the tax on his next sales tax return. If, as a condition of reversing the original sale,

the buyer is required to purchase another vehicle, there is not a rescinded sale. In this case, the vehicle taken back from the customer is treated as a trade-in.

If the dealer does not refund all of the customer's money, it may not qualify as a rescinded sale. Contact the nearest Idaho State Tax Commission office to find out if any of the sales tax paid may be refunded to the customer.

If a Dealer Repossesses a Vehicle, Can He Claim a Sales Tax Refund?

The dealer may apply for a refund or credit if he is the one who ultimately bears the loss if the buyer defaults. The credit must be in proportion to the uncollected amount of the debt. It should be claimed on the dealer's sales tax return the month the bad debt adjustment is made on his books and records. The dealer may use form TCR, Sales Tax Refund Claim, to explain the credit or, instead, may attach a letter of explanation.

If the dealer fails to claim the credit, he may file for the refund on form TCR or by sending a letter to the Tax Commission within the following three years.

Is a Vehicle Rental or Lease Taxable?

Yes. Vehicles held for lease or rental may be purchased tax exempt.

When Is Sales Tax Collected on a Lease?

The type of lease determines when tax must be collected. Vehicle leases fall into three general categories:

- **Lease:** The vehicle is returned to the leasing company at the end of the lease. Sales tax is collected on each lease payment.
- **Lease with Option to Buy:** The customer makes regular payments and has the option to buy the vehicle at some point during the term of the lease at a price which represents fair market value. Sales tax is collected on each payment. If the customer exercises his option, sales tax also is collected on the buy-out or residual value.
- **Lease/Purchase:** At the end of the lease, title to the vehicle passes to the customer for no additional cost or for an amount that is less than a reasonable true value. Sales tax is due up front when the contract is executed, since this is actually a purchase agreement with a financing arrangement. Sales tax is calculated in the same way as if a dealer was selling the vehicle.

Must an Out-Of-State Leasing Company Collect Tax on a Vehicle Used in Idaho?

If Idaho law requires that the vehicle be licensed in this state, Idaho sales tax must be collected. The leasing company must get an Idaho sales tax permit before the vehicle can be registered in Idaho. In addition to filing sales tax returns, the leasing company also may be subject to Idaho income tax.

As a Dealer, What Do I Pay Tax on and What Is Exempt?

You can buy goods for resale without paying tax, such as vehicles for resale, lease, or rental, and nonwarranty repair parts (for customer cars or cars in inventory). Repair parts for mandatory warranties or service agreements are also purchased tax exempt. You must complete a form ST-101 for your supplier.

The following are examples of items on which you must either pay sales tax at the time you buy them, or pay use tax to the state:

- office supplies
- documentation forms
- shop supplies (cleaners, rags, solvents, etc.)
- promotional giveaway items
- optional warranty repair parts

If you charge your customer for parts under any type of warranty or service agreement, you buy the parts tax exempt and must charge your customer tax on the sale. If your customer pays a deductible under terms of the warranty, sales tax does not apply to the deductible amount.

If repair work is sublet to another repair shop and you will charge your customer the tax, you may purchase the sublet repair parts tax exempt by giving the other repair shop a completed form ST-101 for its records. If you are subletting work on an optional warranty or service agreement, pay sales tax to the repair shop.

For More Information, Read:

Brochure #2	Use Tax
Brochure #4	Retailers
Brochure #5	Retailers & Wholesalers: Making Exempt Sales
Brochure #10	Repair Shops
Brochure #11	Rental & Leasing Firms
Brochure #15	RVs, Boats & Aircraft
Rule 44	Trade-ins, Trade-downs and Barter
Rule 49	Warranties and Service Agreements
Rule 51	Discounts, Coupons, Rebates & Gift Certificates
Rule 63	Bad Debts and Repossessions
Rule 94	Exemptions on Purchases by Political Subdivisions, etc.
Rule 101	Motor Vehicles & Trailers Used in Interstate Commerce
Rule 106	Motor Vehicle—Sales, Rent, Lease
Rule 107	Motor Vehicle—Exemptions

For More Information, Contact:

- Idaho State Tax Commission: In the Boise area, 334-7660 ; Toll free, 800-972-7660
- Hearing impaired: TDD 1-800-377-3529
- tax.idaho.gov

This information was prepared by the Idaho State Tax Commission. It does not provide comprehensive explanations of Idaho tax laws or rules. Specific questions should be addressed to the Tax Commission.